

Village of Owendale
Huron County, Michigan
Annual Financial Statements
and
Auditors' Report
February 29, 2008

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Village of Owendale
List of Elected and Appointed Officials
February 29, 2007

Village Council

Walter Howard - President

Gerald Radabaugh - Trustee

Steve Story - Trustee

Troy Smith - Trustee

Bryan Baker - Trustee

Martin Blondell - Trustee

Bonnie Gaeth - Trustee

Other Officers and Officials

Randy Howard - Clerk

Tina Smith - Treasurer



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Independent Auditors' Report

Members of the Village Council
Village of Owendale
Owendale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Village of Owendale as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Village of Owendale as of February 29, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2008 on our consideration of the Village of Owendale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Owendale's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

August 1, 2008
Saginaw, Michigan

Village of Owendale

Management's Discussion and Analysis

Introduction

Our discussion and analysis of Village of Owendale, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 29, 2008. It should be read in conjunction with the Village's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

The Village as a Whole

The Village's combined net assets decreased 3% from a year ago – decreasing from \$1.918 million to \$ 1.857 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities were fairly consistent with the previous year with the exception of the decrease in revenues and expenses in the local street fund caused by the street project that was completed in the prior year. The business-type activities experienced a \$76 thousand decrease in net assets, primarily as a result of depreciation expense.

Village of Owendale Management's Discussion and Analysis

Following is a comparative analysis of the major components of the net assets (in thousands of dollars) of the Village as of February 29, 2008 and 2007:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Current and other assets	\$ 140	\$ 108	\$ 107	\$ 121	\$ 247	\$ 229
Capital assets	<u>494</u>	<u>514</u>	<u>1,259</u>	<u>1,323</u>	<u>1,753</u>	<u>1,837</u>
Total assets	<u>634</u>	<u>622</u>	<u>1,366</u>	<u>1,444</u>	<u>2,000</u>	<u>2,066</u>
Liabilities						
Current liabilities	10	14	2	2	12	16
Long-term liabilities	<u>2</u>	<u>-</u>	<u>130</u>	<u>132</u>	<u>132</u>	<u>132</u>
Total liabilities	<u>12</u>	<u>14</u>	<u>132</u>	<u>134</u>	<u>144</u>	<u>148</u>
Net assets						
Invested in capital assets -						
Net of related debt	494	514	1,127	1,190	1,621	1,704
Restricted	-	-	10	23	10	23
Unrestricted	<u>129</u>	<u>94</u>	<u>97</u>	<u>97</u>	<u>226</u>	<u>191</u>
Total net assets	<u>\$ 623</u>	<u>\$ 608</u>	<u>\$ 1,234</u>	<u>\$ 1,310</u>	<u>\$ 1,857</u>	<u>\$ 1,918</u>

Village of Owendale

Management's Discussion and Analysis

The following table shows the changes of net assets (in thousands of dollars) as of the current date to the prior year.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 50	\$ 41	\$ 53	\$ 53	\$ 103	\$ 94
Operating grants and contributions	3	-	-	-	3	-
Capital grants and contributions					-	-
General revenues						-
Property taxes	54	50	-	-	54	50
State shared revenue	71	73	-	-	71	73
Transfers and other revenue	33	5	1	1	34	6
Total revenues	<u>211</u>	<u>169</u>	<u>54</u>	<u>54</u>	<u>265</u>	<u>223</u>
Program expenses						
General government	106	111	-	-	106	111
Public safety	27	22	-	-	27	22
Public works	61	56	-	-	61	56
Recreation and culture	2	3	-	-	2	3
Water and sewer	-	-	100	103	100	103
Total expenses	<u>196</u>	<u>192</u>	<u>100</u>	<u>103</u>	<u>296</u>	<u>295</u>
Excess (deficiency) before transfers	15	(23)	(46)	(49)	(31)	(72)
Transfers	-	-	(30)	-	(30)	-
Change in net assets	15	(23)	(76)	(49)	(61)	(72)
Beginning net assets	<u>608</u>	<u>631</u>	<u>1,310</u>	<u>1,359</u>	<u>1,918</u>	<u>1,990</u>
Ending net assets	<u>\$ 623</u>	<u>\$ 608</u>	<u>\$ 1,234</u>	<u>\$ 1,310</u>	<u>\$ 1,857</u>	<u>\$ 1,918</u>

Village of Owendale

Management's Discussion and Analysis

The Village's Funds

Our analysis of the Village's major funds begins on page 4-3, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as roadwork, water and sewer. The Village's major funds for 2007-08 include the General, Major Street, Local Street, Municipal Street, Sewer and Water Funds.

General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the General Fund budget in October, 2007.

Capital Asset and Debt Administration

At the end of fiscal year 2007-08, the Village had \$1.753 million in a broad range of capital assets, including buildings, police equipment and water and sewer lines. At the end of fiscal year 2006-07 the Village had \$1.837 million in capital assets. The decrease primarily consists of current year depreciation.

The Village has \$132 thousand remaining to be paid on water supply bonds as of February 29, 2008.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2008-09 calls for state revenue sharing to continue to not keep up with inflation.

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Village Treasurer.

Village of Owendale
Statement of Net Assets
February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 149,105	\$ 46,943	\$ 196,048
Investments	-	15,000	15,000
Receivables			
Customers	2,489	10,995	13,484
Due from other units of government	10,879	-	10,879
Due from internal balances	(24,366)	24,366	-
Prepaid items	2,067	-	2,067
Restricted assets			
Cash and cash equivalents	-	9,869	9,869
Capital assets not being depreciated	-	51,154	51,154
Capital assets, net of accumulated depreciation	493,981	1,208,020	1,702,001
Total assets	634,155	1,366,347	2,000,502
Liabilities			
Accounts payable	8,295	-	8,295
Accrued and other liabilities	1,260	-	1,260
Noncurrent liabilities			
Due within one year	-	2,000	2,000
Due in more than one year	1,963	130,000	131,963
Total liabilities	11,518	132,000	143,518
Net assets			
Invested in capital assets, net of related debt	493,981	1,127,174	1,621,155
Restricted for:			
Debt	-	9,869	9,869
Unrestricted	128,656	97,304	225,960
Total net assets	\$ 622,637	\$ 1,234,347	\$ 1,856,984

See Accompanying Notes to Financial Statements

Village of Owendale
Statement of Activities
For the Year Ended February 29, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
	Expenses			Governmental Activities	Business-type Activities	
Functions/Programs						
Primary government						
Governmental activities						
General government	\$ 105,609	\$ 100	\$ -	\$ (105,509)	\$ -	\$ (105,509)
Public safety	26,594	159	-	(26,435)	-	(26,435)
Public works	61,086	49,292	3,308	(8,486)	-	(8,486)
Recreation and culture	1,739	-	-	(1,739)	-	(1,739)
Total governmental activities	195,028	49,551	3,308	(142,169)	-	(142,169)
Business-type activities						
Sewer	58,957	21,887	-	-	(37,070)	(37,070)
Water	41,264	31,706	-	-	(9,558)	(9,558)
Total business-type activities	100,221	53,593	-	-	(46,628)	(46,628)
Total primary government	\$ 295,249	\$ 103,144	\$ 3,308	(142,169)	(46,628)	(188,797)
General revenues						
Property taxes				53,771	-	53,771
State shared revenue				71,489	-	71,489
Unrestricted investment earnings				1,592	456	2,048
Miscellaneous				-	9	9
Transfers				30,000	(30,000)	-
Total general revenues and transfers				156,852	(29,535)	127,317
Change in net assets				14,683	(76,163)	(61,480)
Net assets - beginning of year				607,954	1,310,510	1,918,464
Net assets - end of year				\$ 622,637	\$ 1,234,347	\$ 1,856,984

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Balance Sheet
February 29, 2008

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Municipal Street	
Assets					
Cash and cash equivalents	\$ 27,877	\$ 45,252	\$ 5,109	\$ 70,867	\$ 149,105
Receivables					
Customers	2,489	-	-	-	2,489
Due from other units of government	10,879	-	-	-	10,879
Due from other funds	8,553	-	1,756	5,000	15,309
Prepaid items	2,067	-	-	-	2,067
Total assets	<u>\$ 51,865</u>	<u>\$ 45,252</u>	<u>\$ 6,865</u>	<u>\$ 75,867</u>	<u>\$ 179,849</u>
Liabilities					
Accounts payable	\$ 8,295	\$ -	\$ -	\$ -	\$ 8,295
Accrued and other liabilities	1,260	-	-	-	1,260
Due to other funds	34,408	267	5,000	-	39,675
Total liabilities	<u>43,963</u>	<u>267</u>	<u>5,000</u>	<u>-</u>	<u>49,230</u>
Fund balances					
Unreserved, reported in:					
General fund	7,902	-	-	-	7,902
Special revenue funds	-	44,985	1,865	75,867	122,717
Total fund balances	<u>7,902</u>	<u>44,985</u>	<u>1,865</u>	<u>75,867</u>	<u>130,619</u>
Total liabilities and fund balances	<u>\$ 51,865</u>	<u>\$ 45,252</u>	<u>\$ 6,865</u>	<u>\$ 75,867</u>	<u>\$ 179,849</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 29, 2008

Total fund balances for governmental funds	\$ 130,619
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	493,981
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	<u>(1,963)</u>
Net assets of governmental activities	<u>\$ 622,637</u>

Village of Owendale
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 29, 2008

		Special Revenue Funds			Governmental Funds Total
	General	Major Street	Local Street	Municipal Street	
Revenues					
Taxes	\$ 39,535	\$ -	\$ -	\$ 14,236	\$ 53,771
Licenses and permits	60	-	-	-	60
State revenue sharing	37,746	22,172	11,571	-	71,489
Charges for services	16,558	-	-	-	16,558
Fines and forfeitures	99	-	-	-	99
Interest income	14	240	15	1,323	1,592
Rental income	32,834	-	-	-	32,834
Other revenue	-	-	-	3,308	3,308
Total revenues	<u>126,846</u>	<u>22,412</u>	<u>11,586</u>	<u>18,867</u>	<u>179,711</u>
Expenditures					
Current					
General government	65,444	-	-	-	65,444
Public safety	16,272	-	-	-	16,272
Public works	26,614	14,451	19,721	-	60,786
Recreation and culture	1,739	-	-	-	1,739
Other functions	28,123	-	-	-	28,123
Capital outlay	300	-	-	-	300
Total expenditures	<u>138,492</u>	<u>14,451</u>	<u>19,721</u>	<u>-</u>	<u>172,664</u>
Excess (deficiency) of revenues over expenditures	<u>(11,646)</u>	<u>7,961</u>	<u>(8,135)</u>	<u>18,867</u>	<u>7,047</u>
Other financing sources (uses)					
Transfers in	30,000	-	12,499	-	42,499
Transfers out	-	-	-	(12,499)	(12,499)
Total other financing sources and uses	<u>30,000</u>	<u>-</u>	<u>12,499</u>	<u>(12,499)</u>	<u>30,000</u>
Net change in fund balance	18,354	7,961	4,364	6,368	37,047
Fund balance (deficit)- beginning of year	<u>(10,452)</u>	<u>37,024</u>	<u>(2,499)</u>	<u>69,499</u>	<u>93,572</u>
Fund balance - end of year	<u>\$ 7,902</u>	<u>\$ 44,985</u>	<u>\$ 1,865</u>	<u>\$ 75,867</u>	<u>\$ 130,619</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 29, 2008

Net change in fund balances - Total governmental funds	\$ 37,047
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(20,401)
Expenses are recorded when incurred in the statement of activities	
Compensated absences	<u>(1,963)</u>
Change in net assets of governmental activities	<u><u>\$ 14,683</u></u>

Village of Owendale
Proprietary Funds
Statement of Net Assets
February 29, 2008

		Enterprise Funds		
		Sewer	Water	Total
Assets				
Current assets				
Cash and cash equivalents		\$ 33,716	\$ 13,227	\$ 46,943
Investments		-	15,000	15,000
Receivables				
Customers		4,967	6,028	10,995
Due from other funds		32,652	-	32,652
Total current assets		71,335	34,255	105,590
Noncurrent assets				
Restricted assets				
Cash and cash equivalents		-	9,869	9,869
Capital assets, net		871,219	387,955	1,259,174
Total noncurrent assets		871,219	397,824	1,269,043
Total assets		942,554	432,079	1,374,633
Liabilities				
Current liabilities				
Due to other funds		-	8,286	8,286
Current portion of noncurrent liabilities		-	2,000	2,000
Total current liabilities		-	10,286	10,286
Noncurrent liabilities				
Long-term debt net of current portion		-	130,000	130,000
Total liabilities		-	140,286	140,286
Net assets				
Invested in capital assets, net of related debt		871,219	255,955	1,127,174
Restricted for:				
Debt		-	9,869	9,869
Unrestricted		71,335	25,969	97,304
Total net assets		\$ 942,554	\$ 291,793	\$ 1,234,347

See Accompanying Notes to Financial Statements

Village of Owendale
Proprietary Funds
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended February 29, 2008

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 21,887	\$ 31,706	\$ 53,593
Other revenue	9	-	9
Total operating revenue	21,896	31,706	53,602
Operating expenses			
Personal services	4,765	5,759	10,524
Supplies	6,715	4,969	11,684
Contractual services	-	600	600
Utilities	1,696	1,241	2,937
Repairs and maintenance	-	2,926	2,926
Depreciation	45,781	18,577	64,358
Total operating expenses	58,957	34,072	93,029
Operating loss	(37,061)	(2,366)	(39,427)
Nonoperating revenue (expenses)			
Interest income	429	27	456
Interest expense	-	(7,192)	(7,192)
Total nonoperating revenues (expenses)	429	(7,165)	(6,736)
Net income (loss)	(36,632)	(9,531)	(46,163)
Net assets - beginning of year	1,009,186	301,324	1,310,510
Net assets - end of year	\$ 942,554	\$ 291,793	\$ 1,234,347

See Accompanying Notes to Financial Statements

Village of Owendale
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 29,2008

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities			
Receipts from customers	\$ 21,830	\$ 31,101	\$ 52,931
Receipts from other funds	45,970	-	45,970
Payments to other funds	(32,652)	2,279	(30,373)
Payments to suppliers	(8,411)	(9,736)	(18,147)
Payments to employees	(4,765)	(5,759)	(10,524)
Net cash provided by operating activities	<u>21,972</u>	<u>17,885</u>	<u>39,857</u>
Cash flows from noncapital financing activities			
Transfers to other funds	<u>(30,000)</u>	<u>-</u>	<u>(30,000)</u>
Cash flows from capital and related financing activities			
Principal and interest paid on long-term debt	<u>-</u>	<u>(9,192)</u>	<u>(9,192)</u>
Cash flows from investing activities			
Interest received	<u>429</u>	<u>27</u>	<u>456</u>
Net decrease in cash and cash equivalents	<u>(7,599)</u>	<u>(6,280)</u>	<u>(13,879)</u>
Cash and cash equivalents - beginning of year	<u>41,315</u>	<u>29,376</u>	<u>70,691</u>
Cash and cash equivalents - end of year	<u><u>\$ 33,716</u></u>	<u><u>\$ 23,096</u></u>	<u><u>\$ 56,812</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ (37,061)	\$ (2,366)	\$ (39,427)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	45,781	18,577	64,358
Changes in assets and liabilities			
Receivables (net)	(66)	(605)	(671)
Due from other funds	13,318	-	13,318
Due to other funds	<u>-</u>	<u>2,279</u>	<u>2,279</u>
Net cash provided (used) by operating activities	<u><u>\$ 21,972</u></u>	<u><u>\$ 17,885</u></u>	<u><u>\$ 39,857</u></u>

See Accompanying Notes to Financial Statements

Village of Owendale
Notes to Financial Statements
February 29, 2007

Note 1 - Summary of Significant Accounting Policies

Reporting entity

Village of Owendale is governed by an elected seven-member Board. The Village was incorporated in 1905 as a general law village and is located in Huron County, Michigan. The Village provides the following services to its residents: public safety, highways and streets, sanitation, recreation, public improvements, planning and zoning and general administrative services.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Owendale
Notes to Financial Statements
February 29, 2007

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the revenue and expenditures associated with the government's major streets.

The Local Street Fund accounts for the revenue and expenditures associated with the government's local streets.

The Municipal Street Fund accounts for the revenue and expenditures associated with the government's municipal streets.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these

charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government Enterprise Fund, of the Water and Sewer Funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Village of Owendale
Notes to Financial Statements
February 29, 2007

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the government totaled \$3,429,066, on which ad valorem taxes consisted of 15.0000 mills for operating purposes. This resulted in \$53,771 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 7 years

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Village of Owendale
Notes to Financial Statements
February 29, 2007

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the Village's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The Village is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

A budget for the 2007-2008 fiscal year was adopted by the Village Council for the Governmental and Special Revenue Funds on May 8, 2007. The adoption was after the date required by the Uniform Budgeting Act. The budget includes proposed expenditures and a means of financing them.

The budgets for the Governmental and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

The following funds had expenditures in excess of appropriations:

Fund	Budget	Actual	Amount over Expended
General	\$ 130,660	\$ 138,492	\$ 7,832
Major Street	14,045	14,451	406

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents
Governmental activities	\$ 149,105	\$ -	\$ -
Business-type activities	46,943	15,000	9,869
Total	<u>\$ 196,048</u>	<u>\$ 15,000</u>	<u>\$ 9,869</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$ 220,917</u>
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Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within

Village of Owendale
Notes to Financial Statements
February 29, 2007

the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 99,036 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Land improvements	\$ 485,340	\$ -	\$ -	\$ 485,340
Infrastructure	31,981	-	-	31,981
Machinery and equipment	160,011	-	-	160,011
Vehicles	22,281	-	-	22,281
Total capital assets being depreciated	699,613	-	-	699,613
Less accumulated depreciation for				
Land improvements	16,415	12,050	-	28,465
Infrastructure	31,981	-	-	31,981
Machinery and equipment	122,538	6,123	-	128,661
Vehicles	14,297	2,228	-	16,525
Total accumulated depreciation	185,231	20,401	-	205,632
Net capital assets being depreciated	514,382	(20,401)	-	493,981
Governmental activities capital assets, net	<u>\$ 514,382</u>	<u>\$ (20,401)</u>	<u>\$ -</u>	<u>\$ 493,981</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 51,154	\$ -	\$ -	\$ 51,154
Capital assets being depreciated				
Buildings, additions and improvements	\$ 1,828,017	\$ -	\$ -	\$ 1,828,017
Machinery and equipment	20,320	-	-	20,320
Water system	585,640	-	-	585,640
Sewer system	3,220	-	-	3,220
Total capital assets being depreciated	2,437,197	-	-	2,437,197
Less accumulated depreciation for				
Buildings, additions and improvements	964,662	45,700	-	1,010,362
Machinery and equipment	20,320	-	-	20,320
Water system	179,107	18,577	-	197,684
Sewer system	730	81	-	811
Total accumulated depreciation	1,164,819	64,358	-	1,229,177
Net capital assets being depreciated	1,272,378	(64,358)	-	1,208,020
Business-type capital assets, net	<u>\$ 1,323,532</u>	<u>\$ (64,358)</u>	<u>\$ -</u>	<u>\$ 1,259,174</u>

Village of Owendale
Notes to Financial Statements
February 29, 2007

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 18,173
Public safety	<u>2,228</u>

Total governmental activities	<u>20,401</u>
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Business-type activities

Sewer	45,781
Water	<u>18,577</u>

Total business-type activities	<u>64,358</u>
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Total primary government	<u>\$ 84,759</u>
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Note 5 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 8,286
General	Major Street	267
Municipal Street	Local Street	5,000
Sewer	General	32,652
Local	General	<u>1,756</u>
		<u>\$ 47,961</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Village of Owendale
Notes to Financial Statements
February 29, 2007

Note 6 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities									
Compensated absences					\$ -	\$ 1,963	\$ -	\$ 1,963	\$ -
Business-type activities									
Bonds payable									
General obligation bonds									
Water supply bonds	\$ 150,000	2034	5.25%	\$2,000- \$16,000	\$ 134,000	\$ -	\$ 2,000	\$ 132,000	\$ 2,000

Village of Owendale
Notes to Financial Statements
February 29, 2007

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Business-type Activities	
	Principal	Interest
2009	\$ 2,000	\$ 6,878
2010	2,000	6,773
2011	2,000	6,668
2012	3,000	6,555
2013	2,000	6,405
2014-2018	15,000	29,813
2019-2023	21,000	25,193
2023-2028	26,000	19,188
2029-2033	35,000	11,116
2034-2035	24,000	1,476
	<u>\$ 132,000</u>	<u>\$ 120,065</u>

Note 7 - Restricted Assets

The balances of the restricted assets accounts in the Enterprise Funds are for debt related purposes in the Water Fund.

Note 8 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board has recently released statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending February 28, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods ending after December 15, 2007. However, measurement is required as of the beginning of the period.

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 37,000	\$ 39,150	\$ 39,001	\$ (149)
Administration fee	500	535	534	(1)
Licenses and permits	-	-	60	60
State revenue sharing	40,000	38,000	37,746	(254)
Charges for services	3,100	17,050	16,558	(492)
Fines and forfeitures	200	80	99	19
Interest income	20	15	14	(1)
Rental income	27,000	33,000	32,834	(166)
Transfer in	-	25,000	30,000	5,000
	<u>107,820</u>	<u>152,830</u>	<u>156,846</u>	<u>4,016</u>
Total revenues				
Expenditures				
General government				
Salaries	32,000	30,700	38,816	8,116
Accounting	10,000	8,000	9,272	1,272
Elections	-	-	28	28
Buildings and grounds	17,500	21,600	17,328	(4,272)
	<u>59,500</u>	<u>60,300</u>	<u>65,444</u>	<u>5,144</u>
Total general government				
Public safety				
Police	16,700	16,490	16,272	(218)

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Drains	\$ 5,000	\$ 4,500	\$ 4,473	\$ (27)
Street lighting	8,500	8,000	8,817	817
Sanitary land fill	13,000	13,000	13,324	324
Total public works	<u>26,500</u>	<u>25,500</u>	<u>26,614</u>	<u>1,114</u>
Recreation and culture				
Parks and recreation	<u>500</u>	<u>270</u>	<u>1,739</u>	<u>1,469</u>
Other functions				
Insurance and bonds	24,000	19,000	21,992	2,992
Unallocated employee fringe benefits	<u>9,800</u>	<u>8,800</u>	<u>6,131</u>	<u>(2,669)</u>
Total other functions	<u>33,800</u>	<u>27,800</u>	<u>28,123</u>	<u>323</u>
Capital outlay	<u>2,500</u>	<u>300</u>	<u>300</u>	<u>-</u>
Total expenditures	<u>139,500</u>	<u>130,660</u>	<u>138,492</u>	<u>7,832</u>
Excess (deficiency) of revenues over expenditures	(31,680)	22,170	18,354	(3,816)
Fund balance - beginning of year	<u>(10,452)</u>	<u>(10,452)</u>	<u>(10,452)</u>	<u>-</u>
Fund balance (deficit) - end of year	<u><u>\$ (42,132)</u></u>	<u><u>\$ 11,718</u></u>	<u><u>\$ 7,902</u></u>	<u><u>\$ (3,816)</u></u>

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 22,000	\$ 22,175	\$ 22,172	\$ (3)
Interest income	<u>-</u>	<u>220</u>	<u>240</u>	<u>20</u>
Total revenues	<u>22,000</u>	<u>22,395</u>	<u>22,412</u>	<u>17</u>
Expenditures				
Current				
Public works	<u>9,100</u>	<u>14,045</u>	<u>14,451</u>	<u>406</u>
Total expenditures	<u>9,100</u>	<u>14,045</u>	<u>14,451</u>	<u>406</u>
Excess of revenues over expenditures	12,900	8,350	7,961	(389)
Fund balance - beginning of year	<u>37,024</u>	<u>37,024</u>	<u>37,024</u>	<u>-</u>
Fund balance - end of year	<u>\$ 49,924</u>	<u>\$ 45,374</u>	<u>\$ 44,985</u>	<u>\$ (389)</u>

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 12,000	\$ 11,600	\$ 11,571	\$ (29)
Interest income	-	15	15	-
Transfers in	-	9,999	12,499	2,500
	<u>12,000</u>	<u>21,614</u>	<u>24,085</u>	<u>2,471</u>
Total revenues				
Expenditures				
Current				
Public works	<u>16,500</u>	<u>19,900</u>	<u>19,721</u>	<u>(179)</u>
	<u>16,500</u>	<u>19,900</u>	<u>19,721</u>	<u>(179)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(4,500)	1,714	4,364	2,650
Fund balance - beginning of year	<u>(2,499)</u>	<u>(2,499)</u>	<u>(2,499)</u>	<u>-</u>
Fund balance (deficit) - end of year	<u>\$ (6,999)</u>	<u>\$ (785)</u>	<u>\$ 1,865</u>	<u>\$ 2,650</u>

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Municipal Street Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 14,000	\$ 14,250	\$ 14,236	\$ (14)
Interest income	400	275	1,323	1,048
Other revenue	<u>-</u>	<u>-</u>	<u>3,308</u>	<u>3,308</u>
Total revenues	<u>14,400</u>	<u>14,525</u>	<u>18,867</u>	<u>4,342</u>
Excess of revenues over expenditures	14,400	14,525	6,368	(8,157)
Fund balance - beginning of year	<u>69,499</u>	<u>69,499</u>	<u>69,499</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 83,899</u></u>	<u><u>\$ 84,024</u></u>	<u><u>\$ 75,867</u></u>	<u><u>\$ (8,157)</u></u>

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

Members of the Village Council
Village of Owendale
Owendale, Michigan

We have audited the financial statements of the Village of Owendale as of and for the year ended February 29, 2008, and have issued our report thereon dated August 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Owendale's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Owendale's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Owendale's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Village of Owendale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

08-01 Budget Overages

Public Act 621 requires that the local unit of government not spend monies in excess of appropriated amounts. The fiscal year 2007/08 budget and actual results of operations showed excess general fund expenditures of \$7,832 over appropriated amounts and excess Major Street fund expenditures of \$406 over appropriated amounts.. We recommend that the budget be monitored throughout the year. When it is realized that there will be overspending, the budget needs to be amended to accommodate the expenditure.

08-02 Budget Adoption

State statute requires a budget be adopted for the general and special revenue funds before the beginning of the fiscal year. Once again the original budget was adopted after the start of the fiscal year. We noted that the 2008-2009 was properly adopted before the start of the fiscal year.

08-03 Deficit Budget Adoption

State statute does not allow for the adoption of a deficit budget. The original budget for the General Fund places the Village in a further deficit position. Additionally, both the original and final budget of the Local Street Fund included a deficit position as well.

This report is intended for the information of the Village, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

August 1, 2008
Saginaw, Michigan



3023 Davenport
Saginaw, MI 48602
(989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Village Council
Village of Owendale
Owendale, Michigan

We have completed our audit of the financial statements of Village of Owendale as of and for the year ended February 29, 2008 and have issued our report dated August 1, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Status of Prior Year Management Comments

We discussed these matters with various personnel in the organization during the audit.

These communications are intended solely for the information and use of management, the Board of Directors, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yours very truly,

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters on as identified in the engagement letter.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected. The most sensitive accounting estimate and how it was derived by management is the allowance for doubtful accounts which is based on historic trends and evaluation of the collectability of the aged receivables as of February 28, 2008.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements. None of the disclosures were deemed highly sensitive.

Difficulties Encountered During the Audit

No difficulties were encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all of the adjustments

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards,. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Village of Owendale as of and for the year ended February 29, 2008, we considered Village of Owendale internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated August 1, 2008, on the financial statements of Village of Owendale

Internal Control Documentation

As noted in prior year, as part of our audit planning procedures, we are required to obtain an understanding of internal control of the Village. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Village completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in the procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Segregation of Duties

Although Management made some changes in segregating duties by including another person in preparing the bank reconciliation and reviewing the Treasurer's work, we noted that there is no documentation of that review. We recommend that whenever reconciliations are reviewed, the individual reviewing that reconciliation should initial it to document that the monitoring has occurred.

Audit Adjustments

During the course of our audit several adjustments had to be posted. Most of the adjustments were posted as a means of converting the financial records from a cash basis to the accrual basis. This is a strong improvement from previous years. Now that the Treasurer has become familiar with QuickBooks and governmental accounting, we recommend that the Council consider recording items on the accrual basis. This would result in more accurate financial reporting to the Council.

Budget Adoption

We noted that the budget for 2007/2008 was not approved prior to the beginning of the fiscal year. We noted that the Council did adopt the 2008/2009 budget prior to March 1, 2008. We commend the Village in addressing the issue.

During our audit we evaluated the status of the prior year suggestion for strengthening internal controls, improving operating efficiency and reducing expenses.

Internal Control Documentation

<u>Comment</u>	<u>Situation Corrected</u>	<u>Progress Made</u>	<u>Still Exists</u>
Interfund balances	X		
Budget not adopted prior to fiscal year		X	
Segregation of duties		X	
Hall rental contracts		X	
Documentation of internal controls		X	
Recording transactions in Quickbooks		X	
Fund Balance deficits	X		

This communication is intended solely for the information and use of administration and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan